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A CONVERSATION WITH SIMON ALDEWERELD

New York City

November 2, 1985

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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OLIVER: May we begin, Mr. Aldewereld, by my asking how you came to the Bank in the first place? Perhaps you would also say a word about your pre-Bank career. Eventually, I want to ask about your career in the Bank, including your experience in India.

ALDEWERELD: I will be glad to answer these questions. With respect to India, I would like to think about that country, not in isolation, but in terms of possible comparison with my experience in other countries.

OLIVER: Well, I hope that you will speak by way of comparison.

ALDEWERELD: Your first question was: "How did I get to the Bank?"

OLIVER: I think you were at the Bretton Woods Conference, were you not?

ALDEWERELD: No. I was born in Amsterdam in 1909, of a very poor family, extremely poor. My father did not even finish his elementary education because his father died and he had to support my grandmother and his many brothers and sisters. That's why my father felt that his son should have a good education. This may be a roundabout way to

World Bank, I think it is important. I finished my secondary education. I went to study at the University of Amsterdam, School of Economics.

OLIVER: Yes.

ALDEWERELD: Since I was on a monetary restraint, so to speak, I finished my studies at the age of 20, with a degree that was not a Doctor's degree, but equivalent to a Masters degree plus two years of post-graduate studies. That's the best way to compare.

OLIVER: Still, a very early age.

ALDEWERELD: It was in 1930; it was just the beginning of the depression. Here I was an economist, fresh from the University, and I could get no other job than a manual job in the Rotterdam Bank in Amsterdam. My salary was very low.

Shortly thereafter, sterling devalued, resulting in very volatile fluctuations from one hour to the next. At that time I was put in the international department and became extremely interested in international banking. I was then, maybe, 22. Ever since I have been constantly involved in the international aspects of banking until today.

OLIVER: It is a fascinating subject "until today" also.

ALDEWERELD: In the 30's, I saw what happened to international loans -- the miserable way in which it was done. Mr. Goering (Mr. if we can dignify him with the word "Mister") opted for guns rather than butter. In 1940, Hitler invaded Holland. My wife and I had just become married, and, because we are Jews, we tried to escape. We did escape.

married, and, because we are Jews, we tried to escape. We did escape. We were taken to England by a small freighter, and there I met my former boss, Mr. Beyen. Have you ever seen his name?

OLIVER: Yes, indeed, I have read his book, Money in a Maelstrom.

ALDEWERELD: He was my mentor and my teacher in banking.

OLIVER: And the first Executive Director, if I am correct, in the World Bank for the Netherlands.

ALDEWERELD: That's right. And also the first loan director on an interim basis. With the invasion of the Netherlands, many Dutch companies, like Philips and Royal Dutch, had transferred their legal headquarters from the Netherlands to Curacao in the then Netherlands West Indies. Since Holland was occupied by the Germans, the assets of these companies in the United States and in the other Allied Nations would have been frozen without the transfer of their legal headquarters from occupied Holland to a free part of the Kingdom of the Netherlands. An enormous amount of assets, located throughout the world, belonging to Dutch companies, were freshly incorporated in Curacao -- a small island that I recall had a foreign exchange budget of \$20,000,000 a year.

Beyen asked me to go to Curacao in the capacity of Secretary of the Foreign Exchange Commission, whose function was, among other things, to supervise the management of the assets of these companies. By the time the organization for this purpose was in place and functioning, the Japanese invaded what then was called the Netherlands East Indies. Soon thereafter the Dutch Government in exile in London

sent a cable instructing me to go to New York to do the same job for the Netherlands East Indies assets. There I met in the office where I was assigned, a man called Crena de Iongh.

OLIVER: Whom you had never met before?

ALDEWERELD: Oh yes, I knew him from the Netherlands.

OLIVER: All right.

ALDEWERELD: I was appointed to a position, which, in American terms, would be called a staff member of the General Accounting Office. My task was to supervise the conduct of affairs by the representatives in the U.S. of the business of Dutch East Indies companies. As was also the case in Curacao, the government had a fiduciary responsibility.

OLIVER: I understand.

ALDEWERELD: During the war, when I lived in New York, the ideas of the Keynes Plan and the White Plan were widely discussed. I had become a member of a study group of Dutch people in New York who debated the post-war monetary system. Such debates undoubtedly occurred among numerous groups all over. Then Bretton Woods came. Crena de Iongh was one of the Dutch representatives and Aron Broches was the Secretary to the Dutch delegation. Since I was Crena's deputy in the Dutch Government's office in New York, I had to mind the store while he was in Bretton Woods. He had often asked for my views and I had given him some ideas, including that if a bank were to be established, it should supervise its loans. This idea was shared by many others, because of the serious mistakes and abuses by international lenders during the period between the two world wars.

Therefore, it was felt very strongly that if, for instance, a loan would be made for locomotives, and the railroad itself would not be built, the locomotives would not be used; they would be rusting in the jungle. I was "Mister Projects."

OLIVER: I understand.

ALDEWERELD: So then the Bretton Woods Institutions were born and Crena de Iongh was asked by Eugene Meyer to become the first Treasurer of the World Bank. Crena then asked me whether I would like to join him in the World Bank as assistant to the Treasurer. I remember I was interviewed in the fall of 1946 by Eugene Meyer, and I was hired effective December 2, 1946, because I first had to finish some work in New York. You will see Broches and you will see Lester Nurick. Dick Demuth you have seen. They joined the World Bank about two or three weeks before I did. I came there three weeks after them.

OLIVER: You came about the time Mr. Meyer resigned.

ALDEWERELD: No. Mr. Meyer resigned three weeks later. Because of my later entry, Lester Nurick, Ronnie Broches and Dick Demuth, though they may personally like me, consider themselves as having come on the Mayflower and look at me as a recent refugee. It shows you how far back we go.

OLIVER: I think you were all on the ground floor.

ALDEWERELD: Oh yes, maybe in the basement. We worked for such low salaries, it was the bargain basement. My boss was Crena, and my first assignment, as Assistant to the Treasurer, was to set up a disbursement system for loans we had not yet made.

One will observe, when one reads the Articles of Agreement of the Bank, that there are two provisions, which in this context are extremely important: one is (I don't quote verbatim) that, except in exceptional circumstances, the Bank shall make loans for specific projects only; the second is (I think I quote verbatim) the Bank shall make arrangements to ensure that the proceeds of any loan shall be used for the purpose for which the loan was granted, with due attention to considerations of economy and efficiency.

OLIVER: Yes.

ALDEWERELD: When I was asked to set up the disbursement system, I was guided by these two specific provisions. I realized, apart from what the law said, that since the Bank had only a limited paid-in capital and a big back-up guarantee, we had to raise substantial financial resources by tapping capital markets. I knew, therefore, being in the Treasurer's Department, that in one capacity or another I would be involved in raising that money. If then you combine what I said about the use of proceeds and the need to raise money, it is clear that this would involve a very great responsibility in the way we handled other people's money.

When the Bank issued its bonds, we often heard welcomed comments such as: The State of California has bought \$25 million. What did this mean? Not that the rich State of California had lent \$25 million to the Bank. No, it meant that the retirement fund of the State of California had invested that amount on behalf of the State's civil servants, to be repaid to the State at the time the money was

needed to pay pensions to those civil servants after they had retired -- to a teacher in Oakland, a fireman in San Francisco or a policeman in Los Angeles, all hard working people. I felt from the very beginning that when we borrowed from other people, we had a fiduciary responsibility that their money be well spent. Having been poor myself, I felt the need to help poor people. These were my clients, in India, or wherever.

The poor people in the United States are better off than poor people in India, but their bed is not full of roses either. Sometimes, when I heard about grandiose plans, "We have to do this and that; money is no object," I said that I wished the people who made these proposals would come to my office on the third floor at the front of 1818 H Street and would look down and see the little park there. At twelve o'clock, you see girls eating their sandwiches. They are not Rockefellers, they are hard working American girls; if they saved some money, they would put it into a savings bank for their children, their old age or for any other good purpose. The savings bank in turn would buy our bonds. True, an American girl makes much more money than a girl in New Delhi, but still it is hard earned money for her. The function of the World Bank is to take care of poor people. There is no doubt about it.

OLIVER: By using the poor people's savings in other parts of the world....

ALDEWERELD: Exactly. Maybe not so poor, but still poor people. I have been a banker all of my life. The last few years I have worked in

the private banking sector -- as I did before the war for 10 years. In '74 I became a partner of Lazard Freres & Co., one of the big investment banks. There I observed again that it is not the big shot with \$100 million who buys World Bank bonds. He buys IBM shares, or other shares, or he puts his money into big office buildings. It's retirement funds, or pension funds (managing mostly small people's money) that buy our bonds. Obviously, you have that same responsibility for rich people too. Do you understand what I mean?

OLIVER: Yes indeed.

ALDEWERELD: When I started to set up a disbursement system, it was uppermost in my mind, that, while I had to disburse money to those poor people -- in India, Brazil, wherever, I had at the same time a duty towards the Los Angeles policeman to make sure that the money he had put into the World Bank would be paid back to him. It is not for nothing that the word "bank" appears in the title. It is a bank. Nobody ever should say that it is a welfare organization. It is not a charitable institution, it is a bank. Other people might disagree, but that is my opinion.

OLIVER: I think it is a bank.

ALDEWERELD: So I worked out that system. I won't go into too much detail except to say I did it with economy in mind. Would you like some coffee?

OLIVER: I'd love some coffee.

ALDEWERELD: Crena knew a man who was a high official in a New York bank, called the New York Trust Company. It was later merged with

another bank. Crena and I went to New York to talk to him. We developed ideas of how to get the cooperation of commercial banks all over the world for the disbursement of the proceeds of our loans. What we worked out is that a loan from the World Bank, as far as its disbursement is concerned, should in fact be regarded as a gigantic documentary letter of credit against which drawings can be made after submission of satisfactory documentation that the money is, or will be used, for the purpose spelled out in the Loan Agreement.

We knew that, if we had to do all this ourselves in Washington for projects all over the world, the World Bank would have to recruit and maintain a very large staff. It should be observed that banks are regularly doing that sort of thing -- making payments against letters of credit -- routinely all over the world every day. So I got the idea, if we make a loan to, say, Brazil or India, for the purchase of locomotives (after international competitive bidding) and the contract provides for 10 percent down when the order is placed, the rest at later intervals, the borrower, on the basis of the loan from the World Bank, may open a letter of credit with any commercial bank he chooses -- in the U. S. A., or any other place, in favor of the supplier of the locomotives -- in the United States, in England, or France, or Germany, or Japan, or wherever. The letter of credit states at the top: "Reimbursable by the World Bank." After the paying bank is satisfied that the documents submitted are in order, it will pay out the money.

OLIVER: The World Bank still pays the money?

ALDEWERELD: Yes.

OLIVER: I understand.

ALDEWERELD: These arrangements are incorporated in the Disbursement Procedures; in fact they are part of the Loan Agreement. The result has been that the Bank could process substantial amounts of disbursements to its borrowers with a relatively small staff.

OLIVER: This all sounds reasonable and logical.

ALDEWERELD: I transferred to project work in '52, in which I was very much involved until George Woods came to the Bank. George said, "I know you are very much involved with projects and I'd like you to continue doing this. In addition, I want you also to take responsibility for finance." There are certain policy aspects of finance, for instance: when to borrow, where to borrow and how much to borrow. This is distinct from the day-to-day operations of the Treasurer's Department.

Eugene Black, who was for 14 years the President of the World Bank, was also his own Vice President of Finance. Black was the greatest bond salesman I have ever known. I was a very great fan of Black. Black, although I was on the project side (because he had little regard for rigid organizational lines) had consulted me regularly on matters of finance.

George came from the corporate finance side, not the bond side. He said: "I have been an investment banker all my life, and I know this business well. Nevertheless, I want you, Siem, to take responsibility for financial policy." I gladly accepted. Some time

later, I went to a reunion with my old friends in the Treasurer's Office. "Mr. Aldewereld," they said, "the system you put in place so many years ago, is still in operation unchanged."

I have a critical nature. It has always been part of my job to challenge a given situation whenever I felt this could lead to improvement. I have also always felt that the best form of criticism is self-criticism. Therefore, after I came back to finance, I commissioned a well known accounting firm to review that system, to establish whether it was still functioning in accordance with the requirements of good management. They made the study and concluded that the basic system, which I had installed so many years before, was still functioning efficiently.

OLIVER: Well, you have now told me how you came back to finance.

ALDEWERELD: During those years '52 - '63, my responsibility was projects. I was Director of Projects. I developed projects work from what was originally a limited basis to what later became a more comprehensive one. Shall I tell about projects now?

OLIVER: Yes, please.

ALDEWERELD: Until the creation of the Projects Department, the projects work, such as it was, was divided between the then Loan Department and Economics Department. The Economics Department was under Leonard Rist and the Loan Department was under Charles Pineo first and then under Stanley Hoar. At that time already, and here I am not exactly clear about the time, it was felt that the Bank needed an engineer to satisfy itself that each project was physically sound.

So Robert Garner, who was then Vice President, hired a man by the name of Madigan from the New York Engineering firm Madigan Hyland. He did some work on the Magdalena Railway Project in Columbia. It was before I became involved in project evaluation work.

In '52, there was a reorganization of the Bank. The man who was in charge of the reorganization was Bill Iliff, later Sir William Iliff, and, to cut a long story short, what happened was that the functions of supervision of projects, carried out by the Treasurer's Department, and the appraisal of projects, carried out by the Loan Department, were merged into a newly formed Projects Department. Since I had the responsibility for project supervision in the Treasurer's Department, I was appointed Deputy Director and soon, thereafter, Director of the Projects Department. That merger was the great change of '52 in the World Bank. You may remember that.

OLIVER: I have read about it.

ALDEWERELD: I organized the Department into several functional divisions: Public Utilities, Transportation, Industrial, Development Banking, Agriculture. I had attached to the Director's Office an engineering adviser by the name of General Spec Wheeler.

OLIVER: I met General Wheeler in 1961.

ALDEWERELD: Until the creation of the Projects Department, some people in the Bank had looked at a given project from a single point of view, say engineering, others from another single point of view, say finance, but nobody evaluated a project in a comprehensive manner. Since I am both a banker and an economist, I said to my staff: "This

is entirely unsatisfactory and unacceptable. I want to know whether the project is sound. We have to bring together several disciplines." In the first place, it is important to know whether the project makes sense from an engineering point of view. Will the dam be built in such a manner that it will not collapse? Whereas this can be taken for granted most of the time in a developed country, it is a riskier proposition in countries that are in an early stage of development. Apart from the engineering of a project, there are many other questions. How about the project's economics? How can we establish how much it costs? How reliable are the cost estimates? What are the benefits going to be? Are those the optimum benefits?

Once we know the dam is safe, once we know it costs so much, once we know the dam will generate so many kilowatt hours, that they cost one penny per kwh to produce, and that they can be sold for a penny and a half, can it then be concluded that the dam is a good project? That depends; it then becomes a matter of economic judgment.

OLIVER: It's at least financially feasible.

ALDEWERELD: Yes, but is it also economically justified? That's the difference. I once explained this difference to McNamara, and in doing so I might have touched a sensitive nerve. I live, I said to him, on Massachusetts Avenue. I am going to the Bank at 1818 H Street. (I'm speaking now of prices that don't prevail any more. It was many years ago.) I can calculate that, if I buy a Rolls Royce, the car will be good for thirty or forty years and then can be resold at a price that may be higher than the original cost. It needs

practically no maintenance. I can thus conclude that it would cost me 2 cents a mile over 40 years to go in a Rolls Royce from Massachusetts Avenue to my office. On the other hand, if I buy, say, a Ford and I take into account its much shorter life, the need for frequent maintenance and the high gas consumption, then I could calculate that it would cost me 3 cents a mile to go from my home to the office. The choice is, therefore, clear. It is cheaper to have a Rolls Royce than a Ford.

However, if I buy a Rolls Royce, I would have to spend \$20,000 and a Ford would only cost \$2,000. Buying a Rolls Royce would, therefore, mean that I could not afford to buy clothes to wear, a chair to sit on or, for that matter, any other necessities of life. In other words, I am too poor to afford the cheapest. The reason is that the cheapest requires an immediate, massive, monolithic investment, whereas the most expensive form of transportation would allow me to spread several small investments over a long period of time. This principle, the economics of alternative investments, is a very important feature in the appraisal of projects. It determines the choice, for instance, between hydro or thermal power, between road transport or rail transport, between irrigated or rain-fed agriculture, etc.

Then there are the organizational and managerial aspects off a project. All that and more were the mandate that I gave to my associates: look at the project from all these points of view. No more appraisals that solely state that the project is sound from an

engineering point of view, or, for that matter, from any other single point of view. We need a comprehensive judgment. I was fortunate to attract good people who understood this approach. Men like Bob Sadove. You may have heard of him?

OLIVER: Yes.

ALDEWERELD: One of the best was Warren Baum.

OLIVER: Yes.

ALDEWERELD: Warren--how should I put it, you know the old saga, the fable of the Sorcerer's Apprentice? He was my apprentice, but, in due course, he also became my master. The concepts were mine, but he perfected them.

OLIVER: He didn't play tricks while you were away -- like the Sorcerer's Apprentice?

ALDEWERELD: No, I mean just the reverse. When I retired, he was doing a job on projects which was much more refined -- a very able man. That was why Warren in his book wrote to me: "You started it all."

OLIVER: Did you get involved in conversations with people who took the point of view that the important thing was simply to give balance-of-payments loans to countries?

ALDEWERELD: Very much so. Professor, I was generally opposed to that because it is contrary to the spirit, if not the letter, of the Articles of Agreement. I consider the Articles as the Bank's Constitution. I was against it except in exceptional circumstances, and I always held the firm conviction that exceptional circumstances

should remain exceptional. Names were introduced such as Maintenance Import Loans, Structural Adjustment loans, etc. I maintained that lending operations of this kind, if carried out very sparingly and as exceptions to the basic project rule, might have a limited place in the World Bank's operations, but the extent to which advocates of the balance-of-payments loans wanted to go would, in my opinion, have been well beyond the extent to which the Bank should go.

I talked to you about the reorganization of '52 which put the Projects Department into a prominent position, the center position in the World Bank. I would have preferred at that time that simultaneously there had been established an Economics Department, not as a research department which we had, but as an entity, separate and independent from the area departments, which would operationally exercise the same strict judgment on the economic policies and future policies of a given country as the Projects Department did for the projects.

OLIVER: Was there any discussion in those days of the relative roles of the International Monetary Fund and the World Bank?

ALDEWERELD: Yes, there was some discussion at the time. The subject relates to the real essence of development. It is a subject of worldwide importance, then and also today.

OLIVER: (Even, the United States Treasury is beginning to think so.)

ALDEWERELD: Yes. If there is an international organization (it can never be done by a national organization) whose function is to transfer financial resources to countries with the purpose to improve

the economic position and prospects of those countries, then that organization inescapably must come to the conclusion that, if a country is in bad financial and economic shape, something might be wrong with its economic and financial policies. There is no country in the world which had ideal economic and financial policies, but the policies of some countries are better than those of others.

The World Bank, which has to invest for the long term, should not only concern itself with projects (to make sure that the dam does not collapse, that it is operated properly, that benefits are generated by a road, that indeed the markets are there for agriculture, etc.), but should also be concerned that the government of a borrowing country follows economic policies that are well designed and that the conduct of its economic affairs is sound. There are bound to be limitations. Where does the Bank find enough people motivated and able enough to exercise these judgments?

OLIVER: In the country itself, you mean?

ALDEWERELD: No, in the World Bank.

OLIVER: In the World Bank.

ALDEWERELD: In the World Bank. Assuming that the Bank would have people with these qualifications on its staff, then a serious question is bound to come up. If the Bank tells a country how it should change the conduct of its economic affairs, then questions of sovereignty are raised. Although over the years much progress has been made, there still remains the feeling among borrowing countries that the activities of international financial organizations infringe on their

sovereignty. The Bank's objective is clear and vitally important, but the extent to which it can be achieved may well be limited. I think the reason an Economics Department, as I described, was never formed, was that, maybe subconsciously, there was apprehension of being regarded as an outsider universally prescribing economic cures.

A human being who could exercise these kind of judgments might well need a brain combining the qualities of the Archangel Gabriel and of the late Professor Einstein.

OLIVER: Even if you had that paragon, things might happen in the future which were not anticipated, so that the prescription might turn out to have been wrong anyway.

ALDEWERELD: I leave out that constraint. After all, when I go to the doctor and he prescribes something for me and then my condition changes, he will change the prescription. That is not the point. The Minister of Finance of Argentina accepts the advice. Advice on vital matters is given by foreign outsiders. This advice profoundly affects the livelihood of the Argentine people, and, therefore, the implementation of the advice may well face severe political obstacles.

Turning now to the I.M.F. Many of the I.M.F.'s member countries have foreign debts of staggering proportions. A very large part of that debt is owed to commercial banks in industrialized countries. So the IMF is called upon to play a prominent part in the solution of the debt problem. Mr. de Larosiere, a very able and dedicated man, says to those countries: "You do this and don't do that." This advice from the Managing Director of the IMF is

absolutely correct. I have a friend called Dr. Liefstinck. He lives in Washington.

OLIVER: I'm anxious to see him next week, if we can arrange it.

ALDEWERELD: Give him my best. He is a very good friend. After imprisonment in a German concentration camp during World War II, he returned home to the Netherlands and became Finance Minister. He put into effect an austerity program more severe than Jacques de Larosiere wants to put into effect in countries with staggering foreign debts. Liefstinck was criticized to the point of being very much disliked by his fellow citizens. He told them: "I am raising taxes so that we can invest in roads and other infrastructure. Don't buy consumer goods." The people accepted all this, because they realized that the country was in desperate shape and that the measures were necessary for the country's recovery. And, very importantly, the prescription came from a fellow Dutchman - Liefstinck. To a foreign expert, and, therefore, an outsider, people might have said, or the Parliament might have said: "We do not want to accept dictation from a foreigner." The people might have demonstrated in the streets. In saying this I do not imply that measures coming from outsiders are doomed to failure, but only that formulation and implementation of policies coming from the outside is much more difficult to accomplish.

OLIVER: Yes.

ALDEWERELD: That to me is the problem. This same sort of problem may even occur on the projects side. It is one thing for the World Bank to negotiate the financing of a project that looms very large in the

total investment program of a country. If the Bank were of the opinion that, in the interest of the proper execution of the project, foreign consultants would be needed (as would be a close supervision of the project by the staff of the World Bank), then the Bank would insist on the inclusion of appropriate conditions to that effect in the loan documents. As you know, the Bank has for many years adhered to the policy that economic activities, which by their nature are revenue producing, should not only have economic justification, but should also earn an adequate financial return. The Bank has, therefore, for instance in cases of the financing of electric power projects, where necessary, insisted on higher power rates, reduction of redundant labor forces, proper budgeting and control over expenses. Does that sound familiar to you?

OLIVER: Yes.

ALDEWERELD: That's what we did consistently. However, now consider another unlikely situation. If a major world industrial power wanted to borrow from the World Bank (a highly hypothetical case, because that power could borrow in capital markets on reasonable terms in its own name), the project, although large in absolute terms, would be small, if not trivial, in the context of the country's entire investment program. Realistic and acceptable as the protective covenants I just described would be a smaller country, because of the project's relative importance, those same covenants, though equally realistic, might be considered politically unacceptable, because of the project's relative insignificance in the total economy

of a major power.

OLIVER: Yes, that might well be the case.

ALDEWERELD: In other words, it is easier to win a battle from the small guy, and much more difficult to win from the big one. Does that sound too philosophical to you?

OLIVER: No, no. I think that is quite right. If you have to choose between the International Monetary Fund and the World Bank, however, to give this Arch Angel-Einstein-type advice on the subject of fiscal policy and monetary policy so that the underlying economy is sound as a background for good project work, which would you prefer? Do you think that that really is the function of a Bank as distinct from the Fund at all?

ALDEWERELD: It is the function of both. When we think of the original concept (putting it in my own words) that the Fund is concerned with shorter perspective balance-of-payments matters and the Bank with longer term investments, then we must conclude that economic judgment is needed on both the short-and long-term prospects of a country's economy. To arrive at this judgment, economic work of the highest order should be done by experienced professional economists. Consequently, I think that much can be said for at least merging the economic work of both organizations. This would lead to increased operational economy and efficiency. At the moment the IMF is moving into longer term financing.

OLIVER: Well, for its part, the Bank is moving somewhat more in the direction of shorter-term balance-of-payments lending with its

structural adjustment loans.

ALDEWERELD: The original distinction of the Fund lending short and the Bank lending long has, indeed, become more nebulous. All the more reason, I think, for at least partial amalgamation of the operational and support activities.

OLIVER: Of the two organizations?

ALDEWERELD: Yes. To give you another example of how things have changed over time, when Bank and Fund were founded, there was a reason why the President of the Bank should be an American and the Managing Director of the IMF a European. The rationale was that at that time that the only capital market in the world was in the United States. Wall Street was the only source of funds available to the Bank. It was felt, and rightly so, that the Bank, to be acceptable to Wall Street, should be headed by an American, who could more easily establish the Bank's credit than a person of other nationality. Gene Black was the choice par excellence. On the other hand, the basic problem the monetary field at that time was that of the weak European currencies. Everybody was concerned about the dollar gap; the problems lay with pounds and Belgian francs and French francs and lire and guilders. It was felt then that since the big problem for the IMF was to cure the monetary ills of Europe, there was a need for a European of prestige to head that organization.

Now the second act -- the '80s. What do you see? Monetarily speaking, it could be argued that the problem now lies with the dollar. There is now a dollar glut and not anymore a dollar gap. The

monetary, budgetary and fiscal policies of Washington have more than ever taken center stage. In addition, over the years the sources of funds for the Bank have substantially shifted away from Wall Street to capital markets outside the U.S. They have shifted to Tokyo and London and Frankfurt and the other financial markets of continental Europe.

OLIVER: It is a different world.

ALDEWERELD: Yes. A case could, therefore, be made for an American to head the IMF and for a non-American to be in charge of the World Bank.

OLIVER: Or, perhaps, merge the two organizations.

ALDEWERELD: Yes. What you say brings the following to my mind. Upon reaching the mandatory retirement age, I retired from the World Bank.

I was invited by the head of Fiat in Italy to join its Board of Directors. I served on that Board for about ten years, until I reached that company's retirement age for directors of 75. Mr.

Agnelli, Fiat's Chairman, has on several occasions expressed his view on the European automobile industry -- Volkswagen of Germany, Peugeot and Renault of France, Fiat of Italy, etc. etc. Each company has a production much smaller than the major American or Japanese manufacturers. Each has its own research, design, engineering, production and marketing organization. He advocated consolidation or merger, resulting in fewer and bigger European companies, to improve the efficiency of the industry and to better meet the competition from the Japanese and the Americans.

OLIVER: I understand.

ALDEWERELD: Mr. Agnelli's plan did not materialize; maybe for reasons of national prestige or pride. I wonder whether obstacles of this nature might also be encountered in a merger between the IMF and World Bank.

OLIVER: May I, while we are on this general subject, jump ahead to a discussion that occurred during the Woods years in the Bank. There was a proposal that came from Irving Friedman and was discussed in UNCTAD that the World Bank, under certain circumstances, might guarantee the funds necessary to finance the imports of a country even if the country's exports declined -- so long as the World Bank had the authority to make recommendations about the fiscal and monetary policy of the country. What was your view about the proposal?

ALDEWERELD: My view was that the proposal was not directly a propos to development and, therefore, not in the realm of the Bank. It belonged in the domain of the Fund.

OLIVER: I take it, at the time, many people in the Fund thought so also.

ALDEWERELD: I thought so, and others in the World Bank thought so too.

OLIVER: As I understand it, it was a proposal which started with UNCTAD which requested that the World Bank make a study of this subject. It was a World Bank response to an outside question.

ALDEWERELD: The proposal in itself may have had merit, but, as I said, it was addressed to the Bank and it should have gone to the Fund.

OLIVER: Well, just to follow up, let me ask about the timing. At

that moment in history, the Fund did not make commitments for more than five years, and the argument in favor of the World Bank's joining in this kind of enterprise was that only the World Bank could make guarantees for longer periods of time.

ALDEWERELD: Commitments.

OLIVER: Yes, commitments.

ALDEWERELD: Five years is a long time.

OLIVER: O.K. I understand. Maybe this is a good time to ask a more general question. If we focus on the years 1963-1968, what do you think of as the major events of that period? What were the strong points of the Woods administration? What kinds of things did George Woods seek to accomplish?

ALDEWERELD: When you speak about events, Professor Oliver, that implies that Mr. Woods got up one morning, had a good breakfast, went to the office at 8:30, and said: "We are going to do something new." That would have been an event. When you ask, looking back, what was the achievement, what was the result, what was the evaluation, of the Woods years, let me say this: You can only judge somebody or something in certain contexts. That is what I started with this morning. When you speak about Woods, you have to ask, What were his accomplishments after the 14 years reign of Gene Black, after a year and a half of Jack McCloy, and a few months of Eugene Meyer? Eugene Meyer achieved a great deal. He laid the foundation for the Bank's important future operations by appointing good people. He appointed Crena de Iongh. He appointed Leonard Rist. He appointed Dick Demuth.

He appointed Chester McLain. He appointed Dave Sommers. He appointed Ronnie Broches. He appointed Lester Nurick. The only mistake he made, he also appointed Aldewereld.

OLIVER: I think that was not a mistake at all.

ALDEWERELD: Although during his short tenure Eugene Meyer did not make a loan, he, as I said, laid the very solid personnel foundation for the Bank loans of the future. Then McCloy came after the interregnum period. This period was important. McCloy made the first few reconstruction loans, big ones -- in May 1947, \$250 million to France. How much is it in today's terms? Much more.

OLIVER: Perhaps 10 times that.

ALDEWERELD: Yes. He loaned \$195 million to the Netherlands. He made other reconstruction loans to Denmark and Luxembourg. These important operations would not have been possible were it not for the personnel foundation laid by Eugene Meyer. McCloy was already accompanied by Gene Black, who was appointed the U.S. Executive Director at the time of McCloy's appointment as President. Gene Black's great contribution was that he established the market in the United States for World Bank bonds. We didn't even get a rating when we started, and, before long, we obtained triple A ratings from the rating services. These ratings have been maintained ever since. Gene Black also expanded lending operations, mostly for big infrastructure projects which at the time deserved high priority. Gene was a good manager; his relations with the staff were excellent. At the time there were two problems: How much and where to lend, and Where do we find the money to make this

lending possible. The priority, at least at the beginning of the Black regime, had to be given to the raising of money.

OLIVER: To lend.

ALDEWERELD: To lend. Then Gene retired and George Woods succeeded him. Gene was the raiser of money and George was, in investment banking terms, on the buying side not the sales side. Gene was the greatest salesman in the world. He could sell a bond to anyone. I once told Gene Black: "I hope you realize that we lease the building at 1818 H Street because, if not, you are apt to sell it."

Then George Woods succeeded Gene. George, as I said, was a buyer a first-rate corporate finance man. That was the hallmark of his distinguished career in investment banking. From the very beginning of his presidency he emphasized the need to expand our lending and to put more contents into it.

Black and Woods were both executives of the highest calibre. I rate them equally; that's why I said, there is a time for everybody. The time had come for the buyer to follow the seller, and, thus, it was logical for George to put his mark on the Bank's development activities.

OLIVER: All right, but you yourself were already heavily involved in doing this.

ALDEWERELD: Yes, I was, but I benefitted greatly from George's leadership. He had the concept that, while we were on the right lending track, it was necessary to broaden the scope of lending and to put more substance into it. He brought to bear on our thinking his

concepts of how to think about the future, because he was a great banker.

OLIVER: Well, now, will you explain that in more detail. When he came to the Bank, you had been working on projects together with your staff for a number of years. You had set up very carefully a mechanism for judging the engineering competence, for taking care of disbursements, for doing benefit-cost analysis, and yet you are saying, if I understand you, that he added something.

ALDEWERELD: He did not add to the methodology, no. He said "What we have been doing up to now, namely, waiting for borrowers to come to us, is fine, but I want to add the concept that the Bank should also actively search for additional investment opportunities.

OLIVER: So it was more a matter of being more active in the search for good projects.

ALDEWERELD: Yes, but active does not describe it fully. The role of George Woods was also to establish development consciousness by putting more depth into the Bank's lending. I'll give you an example. We had been at odds with Brazil. There were many reasons for this regrettable state of affairs. Differences of view between the Bank and Brazil over the direction and tempo of the allocation of financial resources, conceptual differences about the role of the public and private sectors in development, development priorities, etc. etc. The result was, unfortunately, that the flow of Bank funds to Brazil had been reduced to a trickle.

This situation had started during the latter part of the Black

regime and had continued through, if my memory is correct, the first year or two of the Woods presidency.

One day the Economic Minister of Brazil came to visit George Woods, and George asked me to join them. The minister said: "I know the reasons why you are reluctant to expand lending to Brazil. We do not entirely agree, but we recognize your strongly held belief. The fact is that this state of affairs is an obstacle standing in the way of our economic development. A most important part of our economy is the transport sector. The ports are in very poor shape; the railroads are losing astronomical amounts of money; and the road system needs substantial expansion and improvement. Is there any way to get out of the impasse?"

George thought for awhile and then said, "Mr. Minister we feel that our position of holding back on lending to Brazil is correct. However, it can be argued that if the transport system could be improved, this would result in substantial economic benefits to Brazil. Therefore, despite the Bank's reservations about many of Brazil's policies, I propose that we move ahead by organizing a thorough study of what causes the transport sector to be in such bad condition. We should also investigate what policy and other changes are necessary to achieve a better functioning transport sector. This study should also cover what specific projects should be carried out, how much they would cost and what their benefits would be. Such a study, because it should deal thoroughly with the physical, economic, financial and organizational aspects, is bound to be costly. If you,

Mr. Minister, agree to the idea of the study, then the Bank would be prepared to contribute a sizeable part of its cost. I will ask Mr. Aldewereld to go to Brazil to work out with you and your associates the organization of such a study."

The minister agreed and shortly thereafter I proceeded to Brazil, where I reached agreement on the scope and contents of the study. A big international team of eminent experts was formed that started work soon thereafter and in due course submitted its report. It focussed on many policy and procedural problems. These problems were discussed with the Brazilians and many of them were resolved to our mutual satisfaction. As a consequence lending to Brazil picked up considerably.

I give you this example as a way of describing George Woods. The Bank had done sector studies before, so they were not something entirely new, but George, while always keeping his feet firmly on the ground, put his own mark of creativity, quality, comprehensiveness and audacity on the study. This to me was development banking of the highest order. Does that answer your question?

OLIVER: I think I understand in general, but I am still sufficiently fuzzy that I'd like to pursue it with one more question. Was there anything that George Woods suggested to you, and through you to the people working in the Projects Department, that they should do over and above what they were already doing?

ALDEWERELD: If you mean, was there a magic work that he pronounced which caused us suddenly to make material changes in the way we did

our work, the answer is: No. What happened was more subtle. His knowledge and experience gradually affected personal and professional relationships. He was a stimulator and a manager of people. He had a great sense of quality, and he tried to convey that sense to others, which, to my mind, is the hallmark of a good executive.

OLIVER: In the mid 1950s there was some discussion in the Bank of the concept of "Absorptive Capacity." Before there was an IDA, there was a notion that countries were using funds about as rapidly as they reasonably could and still remain creditworthy. With IDA, that concept changed somewhat. IDA came in before Woods, but it really flowered, so to speak, during the Woods era. Is that related to the sort of thing we were talking about? Was Woods able to say to his staff, "We need to seek more ways of making loans because we now have the possibility of this concessional type of funding?"

ALDEWERELD: Definitely not. IDA terms are concessional, much more concessional than World Bank terms, which are also concessional. As far as the use to which the funds were put, however, there is no difference, no distinction whatsoever. Indeed, because of the IDA, the creditworthiness obstacle was removed, but the stringent standards about the use to which the money should be put and the protective covenants remained identical, and would be maintained no matter whether the project were financed from a Bank loan or from an IDA credit.

Let's assume that at that time a staff member, when discussing lending to a given country, would have said: I know that we cannot

make more Bank loans to the country because all that country's available organizational, managerial and manpower resources are used to the limit. In the circumstances, since the limit of absorptive capacity has been reached, let's now extend an IDA credit, which is cheap money and, therefore, it is not important, as would be the case with a Bank loan, that our standards are maintained. In such a hypothetical situation the staff member would have been disciplined and could not have looked forward to a successful career.

In the '50s there was indeed concern, which I shared with others, that certain countries might be getting to the limit of their absorptive capacity. However, thanks to the Bank's close relations with borrowers and the increased availability of technical assistance from many outside sources, multilateral and bilateral, absorptive capacity improved. The Bank's borrowers could successfully undertake an increasing number of investments. At the same time we had more and more access to financial resources. Black did a great fund-raising job, first in the U. S. and later in capital markets outside the U.S. I think I contributed by obtaining access to the Japanese market and at the same time broadening the Bank's borrowing operations in general. At no time were there financial constraints; as the absorptive capacity increased, the money was there to meet the demand.

OLIVER: Well, it is sort of a chicken-and-egg kind of proposition, I suppose, but as more money does become available to the Bank in the '60s, partly through IDA but also partly because of the opening of more financial markets in other places in the world, the

amount of lending does increase. The amount of project work does increase. Even the types of projects for which the Bank can make loans are expanded. All of these things are happening simultaneously. I'm wondering to what extent this is just a natural function of the maturing of the Bank, on the one hand, and to what extent it was an initiative related to Woods as a person.

ALDEWERELD: To a large extent to Woods. He did not want the Bank to rest on its laurels, but wanted to open new fields of activity: secondary roads -- the farm to market roads, telecommunications, to mention some. That was Woods. He did not criticize what had happened in the past, but he expanded and added. He broadened and increased the Bank's activities. He did not suppress one activity in order to create another. He made the Bank's lending activities more comprehensive. Woods did all that without departing from the basic principle that the Bank should remain a sound banking organization. If I may characterize Woods (that's after all what you're interested in) I could put it as follows: he came from a poor background and, therefore, knew what poverty meant. He worked himself up to be a first-rate investment banker. Everything that he achieved in life was because of his own efforts. Like that advertisement on television, "He made money the old-fashioned way. . . ."

OLIVER: "He earned it."

ALDEWERELD: He earned it. Yes, indeed.

OLIVER: I understand all that, but I think you have made a very important point in addition. While he was an investment banker, he

was more concerned with the buying side, that is to say with finding good projects, than he was with the already established ability at the Bank to sell its bonds.

ALDEWERELD: Yes, that was the case in general terms.

OLIVER: I understand. I just want to make sure that I understand what you are telling me.

ALDEWERELD: Woods, while continuing to maintain the Bank's high credit in the capital markets, paid a lot of attention, and rightly so, to the manner in which the Bank was lending its money.

OLIVER: It has been suggested to me by others in my interviewing that investment banking may provide a particularly happy background for a person to be a president of the World Bank.

ALDEWERELD: I agree.

OLIVER: And investment banking may be preferable to commercial banking or the law.

ALDEWERELD: Yes, although with some qualifications. First, the separation between commercial and investment banking is a phenomenon limited to a few countries, notably the United States. Even with this separation it always will remain a matter of people. In most if not all countries of continental Europe this separation does not exist. The "Universal" bank performs both functions.

Since World Bank presidents have always been Americans, the nature of the European banking system has had no practical significance. Second, Black came to the World Bank from a high position in a commercial bank, the Chase. I understand, however, that

he got his start in investment banking, after which he moved into the bond business of the Chase. Maybe that's why Black always struck me as an investment banker. Having said all this, my answer is, "Yes." I feel that investment banking provides a particularly happy background for a president of the World Bank.

OLIVER: So that both Woods and Black, who came from that tradition, were outstanding presidents of the Bank.

ALDEWERELD: Yes, they were outstanding. Black and Woods and in that sequence. I'd like to ask you a question (you know the answer): Do you think Woods could have preceded Black?

OLIVER: No, I think it is quite clear that it was important first to establish a market for the Bank's bonds. If the Bank doesn't have anything to lend, the project work can't progress.

ALDEWERELD: I fully agree with you. I joined the Bank in 1946 and I retired in 1974. I was very fortunate to spend 28 years of my working life with the Bank. It was a period of great satisfaction and fulfillment. The nineteen years of the Black and Woods regime, from 1949-1968, were the most satisfying and fulfilling of all. I am bold enough to think that was because of our common background - banking.

OLIVER: I understand. I wonder if this would be a good point at which to stop our first conversation and look forward to our second?